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C O N F I D E N T I A L SECTION 01 OF 03 KOLONIA 000152

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TAGS: [PREL](#) [PGOV](#) [CH](#) [FM](#)
SUBJECT: CHINA AND THE FSM EXTOL ACCOMPLISHMENTS AND FRIENDSHIP

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REASON: 1.4 (b), (d)

11. (C) Summary. As frustration with the Compact of Free Association has mounted, FSM leaders have cautiously turned to China for material assistance. Privately, Micronesians have expressed misgivings about China's growing influence. On Independence Day of the Peoples Republic of China October 1, Vice President of the Federated States of Micronesia (FSM) Alik Alik heaped unusually strong and lengthy praise on China's strengthening ties with his country. He emphasized the FSM's commitment to a One China policy. The Chinese Ambassador enumerated a long list of accomplishments, highlighting many of the friendship and familiarization visits that the PRC has funded for Micronesians. End Summary.

COMMERCIAL INROADS

12. (C) A celebration of the 59th anniversary of the founding of the People's Republic China on October 1 highlighted the intensity of PRC engagement in the Federated States of Micronesia (FSM). China has energetically targeted and engaged almost every Micronesian leader and opinion setter at the state and national levels to travel on Government of China (GOC) sponsored trips to China. Many leaders have made more than one trip. One frequent traveler to China, Secretary of Resources and Development Peter Christian, announced he has applied to China for a loan to support the new FSM national petroleum corporation. (Note: While China has urged the FSM to accept a variety of preferential loans at a rate of 2 percent interest, it is unclear whether the Micronesians, who lack collateral, have committed. Such loans, if they are transparent, would require FSM Congressional approval.) Meantime, Secretary Christian has advocated for Chinese flights to the FSM to bypass U.S. border controls by flying through the Philippines. In June, Christian signed a memorandum of understanding with China that establishes the FSM as an official tourist destination for Chinese citizens.

13. (SBU) At the FSM state level, GOC affiliated Luen Thai Corporation operates a fish processing plant in Pohnpei and recently opened a dry dock facility at the Kosrae port, which will service some 70 Luen Thai fishing vessels that operate in the FSM and Republic of the Marshall Islands (RMI). Negotiations are also in progress for Luen Thai to open a large 'super frozen' fish loin processing plant in Kosrae, which the Governor said would export fish on Luen Thai vessels and employ some 150 Micronesians. However, the contract is contingent upon a package deal in which Kosrae would have to accept a \$3 million loan from China in order to upgrade an existing fish plant, which is dilapidated and abandoned. The Kosrae Governor confirmed that the FSM Congress would need to approve such a foreign loan.

A FRIENDSHIP OF NECESSITY

14. (C) Privately, many Micronesians have expressed misgivings about China's surge of generous attention. During his September trip to Xiamen, Secretary Christian stated in the presence of a journalist, "FSM's relationship with China was established because of a dire need and not by choice." Several leaders have quietly remonstrated at the ban imposed by the FSMNG on opening business contacts with Taiwan. In the meantime, frustration with implementation of the Compact, a bureaucratic bottleneck on Compact infrastructure projects, and FSM failure to stimulate business and revenue have all positioned the nation to acquiesce to China's largesse.

15. (C) Not all of China's gifts are welcome. For example, President Mori has remarked that he detests the solar street lights that adorn FSMNG headquarters. Micronesians have failed to maintain the batteries. The lavish housing compound that China erected for the President, Vice President, Speaker of the Congress and Supreme Court Justice lacks adequate ventilation; air conditioning expenses for the houses have become an item of controversy in the national budget. China's offer to build a new high school in Kosrae was initially rejected by the state cabinet. Kosrae's Education Director told Embassy officers that the current high school remained adequate; demolition (at state expense) would displace all the students for up to one year. Finally, President Mori reportedly called the Governor and said, "You have to accept this project. China wants it." Demolition of the current high school has begun.

16. (C) Ambassador Liu Fei, who is China's hard charging envoy to the FSM, has been forthcoming in explaining her volume of high-profile activities. "Taiwan is the threat," she has reiterated. When asked about a recent softening of Taiwan's

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approach to China, Liu insisted that such overtures were purely political gestures, most likely aimed at obtaining economic favors. Taiwan continued to reveal its true intentions in its ongoing attempts to gain recognition at the United Nations as an independent nation, she said.

A LAUNDRY LIST OF FRIENDSHIP

17. (SBU) On the occasion of PRC Independence Day, Ambassador Liu hosted a dinner for some 200 guests. In a five-page address, which Chinese Embassy workers distributed at the dinner tables, Liu recalled China's "protracted and hard struggle" for liberation. She described the emergence of a new China in which "people became their own masters, laying the foundation for China's development and prosperity." She praised the "strong support" of the FSM National Government (FSMNG) for the unification of China and adherence to the One China policy.

18. (SBU) In response, FSM Vice President Alik Alik delivered an exceptionally laudatory and lengthy companion address of some twenty minutes. Alik extended congratulations on China's successful launch of its recent space-walk mission and then praised, "the gamut of high-profile visits of national and state leaders as well as assistance of all sorts in the important areas of human resource development and renewable energy projects." He stressed the FSMNG's strong adherence to a One China policy, concluding, "The sentiments captured in the slogan 'one world, one dream' of the 29th Olympiad can only be fulfilled if the world dreams one dream, including FSM and China, to work along side each other to make this world a better place to live."

19. (SBU) Most of Ambassador Liu's address was an iteration of an intense but only partial list of the many accomplishments that Liu has personally engineered during her 18 months of duty in the FSM. The Ambassador mentioned:

--Participation of FSM President Emanuel Mori and key Cabinet members in the Beijing Olympics and Mori's breakfast with President Hu Jintao;

--President Mori's trip to Shandong Province, which is a sister state to the FSM state of Kosrae. Mori visited agricultural, aquaculture and rural trade markets and encouraged a Chinese delegation from the province to visit the FSM;

--A trip last April by Pohnpei State Governor John Ehsa and Pohnpei Speaker Nelson Pelep to Zhejiang Province, which has become a sister state to Pohnpei. Pohnpei officials visited a biogas project and Yiwu Trade City, which Liu described as a model for promoting small, private businesses and trade expansion;

--Secretary of Resources and Development Peter Christian's September trip to Xiamen for a five-day conference of Pacific island leaders on trade, tourism and investment. The FSM's sole newspaper editor also attended;

--China's gift of 171 sets of solar street lamps for the FSMNG and the four FSM states;

--An extensive pilot farm in Pohnpei, where Chinese agrarian specialists demonstrate how to raise 39 kinds of vegetables and fruits, as well as pigs and hens;

--A trip this month of FSM national Senators to Xingjian Autonomous Region to view a wind power mill and a Chinese-Israeli agricultural demonstration farm;

--Voyage of China's 'Chief Milo' cargo ship from Chuuk back to China for dry dock repairs and an engine upgrade, with an anticipated return to Chuuk to serve as the principal vessel for the state's sprawling intra-island transport;

--Sponsorship of five Chinese doctors to work in the Chuuk State hospital for two years;

--Entry of over 40 FSM scholarship students to study at universities and colleges in China;

--Assignment of a Chinese teacher to the College of Micronesia to conduct two Chinese language classes;

--Donation of 2,000 Chinese reading books to the FSM outer islands;

--Groundbreaking for construction of a high school in Kosrae State;

--Visit of the College of Micronesia President to Zhehian University to promote additional sister school exchanges, etc;

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COMMENT

110. (C) China's active ambassador in the FSM has urged the U.S. to strive for more effective implementation of the Compact in order to provide a more stable base for China's development programs, which in the near term appear to be aimed at shutting out Taiwan. At the same time, she has ushered an influential cross-section of Micronesians to faraway regions of China to witness her nation's rapid progress as a model for economic growth, modernization and governance. China's longer term objectives in the FSM may portend broader horizons than competing with Taiwan, however, such distant aims are currently unclear to the Micronesians.

HUGHES